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REPORT OF THE AUDIT OF THE
KNOTT COUNTY
SHERIFF

For The Year Ended
December 31, 2005

Member Kentucky Society of CPA's
American Institute of Certified Public Accountants

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Kathryn A. Thissen
Certified Public Accountant

To Honorable Randy Thompson, Knott County Judge/Executive
Honorable Ray E. Bolen, Knott County Sheriff
Members of the Knott County Fiscal Court

Independent Auditor's Report

I have audited the accompanying statement of revenues, expenditures, and excess fees – regulatory basis of the Sheriff of Knott County, Kentucky, for the year ended December 31, 2005. This financial statement is the responsibility of the County Sheriff. My responsibility is to express an opinion on this financial statement based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In my opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2005, in conformity with the regulatory basis of accounting described in Note 1.

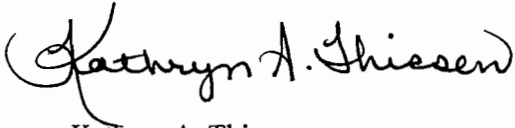
In accordance with Government Auditing Standards, I have also issued a report dated September 20, 2006, on my consideration of the County Sheriff's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Based on the results of my audit, I have presented the accompanying comment and recommendation, included herein, which discusses the following reportable condition and material weakness:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

To Honorable Randy Thompson, Knott County Judge/Executive
Honorable Ray E. Bolen, Knott County Sheriff
Members of the Knott County Fiscal Court

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Knott County, Kentucky and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

A handwritten signature in black ink, reading "Kathryn A. Thissen". The signature is written in a cursive style with a large initial 'K'.

Kathryn A. Thissen
Certified Public Accountant

September 20, 2006

KNOTT COUNTY
RAY E. BOLEN, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES – REGULATORY BASIS

For The Year Ended December 31, 2005

Revenues

Federal Grants:

| | |
|----------------------------------|-----------|
| Corps of Engineers - Lake Patrol | \$ 18,069 |
|----------------------------------|-----------|

State Grants:

| | |
|---|--------|
| Kentucky Law Enforcement Foundation Program Fund (KLEFPF) | 15,172 |
|---|--------|

| | |
|--------------------------------|-------|
| Knott Drug Abuse Council Grant | 6,840 |
|--------------------------------|-------|

| | |
|-------------------------|--------|
| State Fees For Services | 86,943 |
|-------------------------|--------|

| | |
|--------------|---------|
| Fiscal Court | 239,333 |
|--------------|---------|

| | |
|---------------------------------|-------|
| County Clerk - Delinquent Taxes | 1,843 |
|---------------------------------|-------|

| | |
|----------------------|---------|
| Commissions on Taxes | 211,021 |
|----------------------|---------|

Fees Collected for Services:

| | | |
|------------------|----------|--|
| Auto Inspections | \$ 6,314 | |
|------------------|----------|--|

| | | |
|--|-------|--|
| Carrying Concealed Deadly Weapon Permits | 8,340 | |
|--|-------|--|

| | | |
|-----------------------|--------|--|
| Subpoenas and Summons | 14,797 | |
|-----------------------|--------|--|

| | | |
|-----------------|-------|--|
| Mental Warrants | 6,400 | |
|-----------------|-------|--|

| | | |
|-----------------------------------|--------|--|
| 10% Add-On Penalty - Property Tax | 22,823 | |
|-----------------------------------|--------|--|

| | | |
|---------------------------------------|-------|--------|
| Sheriff's Fee on Late Tax Collections | 3,632 | 62,306 |
|---------------------------------------|-------|--------|

| | | |
|---------------|--|-------|
| Miscellaneous | | 3,548 |
|---------------|--|-------|

| | | |
|-----------------|--|-------|
| Interest Earned | | 2,646 |
|-----------------|--|-------|

| | | |
|-------------------------|--|--------|
| School Resource Officer | | 20,000 |
|-------------------------|--|--------|

| | | |
|----------------|--|------------|
| Total Revenues | | \$ 667,721 |
|----------------|--|------------|

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

| | |
|-------------------|------------|
| Deputies Salaries | \$ 180,264 |
|-------------------|------------|

| | |
|----------------|--------|
| Other Salaries | 78,786 |
|----------------|--------|

Employee Benefits-

| | |
|-----------------------------|--------|
| Employer's Share Retirement | 23,546 |
|-----------------------------|--------|

Contracted Services-

| | |
|------------------|-------|
| Payroll Services | 3,054 |
|------------------|-------|

| | |
|-------------|-----|
| Advertising | 228 |
|-------------|-----|

The accompanying notes are an integral part of the financial statement.

KNOTT COUNTY
 RAY E. BOLEN, COUNTY SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES – REGULATORY BASIS
 For The Year Ended December 31, 2005
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

| | | |
|---|----|---------|
| Materials and Supplies- | | |
| Office Supplies | \$ | 5,097 |
| Uniforms | | 5,033 |
| Police Supplies | | 6,408 |
| Other Charges- | | |
| Convention and Travel | | 1,244 |
| Carrying Concealed Deadly Weapon Permits | | 5,990 |
| Transporting Prisoners | | 445 |
| Bonds and Dues | | 615 |
| Bank Charges | | 303 |
| Postage | | 3,968 |
| Miscellaneous | | 769 |
| Auto Expenses- | | |
| Gasoline | | 3,752 |
| Maintenance and Repairs | | 11,925 |
| Capital Outlay- | | |
| Office Equipment | | 160 |
| Vehicles | | 26,303 |
| | | <hr/> |
| Total Expenditures | \$ | 357,890 |
| | | <hr/> |
| Net Revenues | \$ | 309,831 |
| Less: Statutory Maximum | | 65,474 |
| | | <hr/> |
| Excess Fees Due County for 2005 | \$ | 244,357 |
| Payment to Fiscal Court- March 9, 2006 | | 244,357 |
| | | <hr/> |
| Balance Due Fiscal Court at Completion of Audit | \$ | 0 |
| | | <hr/> |

The accompanying notes are an integral part of the financial statement.

KNOTT COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

Kentucky Revised Statute (KRS) 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Sheriff as determined by the audit. KRS 134.310 requires the County Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2005 services
- Reimbursements for 2005 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2005

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

KNOTT COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2005
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS) pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent for the first six months and 10.98 percent for the last six months of the year. Hazardous covered employees are required to contribute 8.0 percent of their salary to the plan. The county's contribution rate for hazardous employees was 22.08 percent for the first six months of the year and 25.01 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

KNOTT COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2005
(Continued)

Note 4. State Grant

Kentucky Law Enforcement Foundation Program Fund (KLEFPF)

The Knott County Sheriff's office was awarded a grant under the Kentucky Law Enforcement Foundation Program Fund (KLEFPF) from the Commonwealth of Kentucky Department of Criminal Justice Training. Under the program, eligible officers received up to \$3,100 annually as provided in Kentucky Revised Statute 15.460. During calendar year ended December 31, 2005, Knott County Sheriff's office received \$15,172. All funds received were expended for their intended purpose.

Note 5. Knott Drug Abuse Council Incorporated

The Knott County Sheriff's Department entered into a Memorandum of Understanding (MOU) with the Knott Drug Abuse Council, Inc. on March 2, 2005. The purpose of the MOU is to provide a framework for cooperation between the parties concerning the placement of a deputy at Knott County Central High School/ or any public school in the Knott County school system, as deemed necessary. The Knott Drug Abuse Council, Inc., provides funding for one (1) deputy to work during the school term at the rate of \$18,300. This deputy is to be utilized to promote a safe and ATOD free environment for the students of Knott County. This deputy may be used at any school deemed necessary by the Knott County Sheriff's Department and the Knott County Board of Education. The Knott County Sheriff's office received \$6,840 from the Knott Drug Abuse Council, Inc., during the calendar year ended December 31, 2005.

COMMENT AND RECOMMENDATION

KNOTT COUNTY
RAY E. BOLEN, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2005

INTERNAL CONTROL – REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

I noted the lack of an adequate segregation of duties for the internal control structure and its operation that, in my judgment, is a reportable condition. Management has considered and rejected additional cost when setting budget limits on spending for salaries and therefore accepts the degree of risk for a lack of an adequate segregation of duties.

The following compensating controls were suggested to help offset the lack of segregation of duties:

- Cash periodically recounted and deposited by the Sheriff
- Periodic reconciliation of reports to source documents and cash receipt ledger by the Sheriff
- The Sheriff or someone independent of the Sheriff's office prepares bank reconciliations

Sheriff's Response:

Due to limited staff, the Sheriff's office is unable to establish an adequate segregation of duties.

PRIOR YEAR:

The Sheriff's Office Lacks Adequate Segregation Of Duties

This comment was not corrected and is discussed above.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Kathryn A. Thissen
Certified Public Accountant

The Honorable Randy Thompson, Knott County Judge/Executive
Honorable Ray E. Bolen, Knott County Sheriff
Members of the Knott County Fiscal Court

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

I have audited the statement of revenues, expenditures, and excess fees – regulatory basis of the Knott County Sheriff for the year ended December 31, 2005, and have issued my report thereon dated September 20, 2006. The County Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Knott County Sheriff's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, I noted a certain matter involving the internal control over financial reporting and its operation that I consider to be a reportable condition. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Knott County Sheriff's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying schedule of comment and recommendation.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

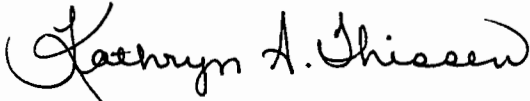
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that the reportable condition described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Knott County Sheriff's financial statement for the year ended December 31, 2005, is free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Report On Internal Control Over Financial Reporting And On Compliance
And Other Matters Based On An Audit Of The Financial Statement
Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

A handwritten signature in black ink, reading "Kathryn A. Thissen". The signature is written in a cursive style with a large initial 'K'.

Kathryn A. Thissen
Certified Public Accountant

September 20, 2006